Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

A281.9
Ag83E

ERS-135

MEATPACKERS' COSTS AND SPREADS FOR BEEF

TRI-AGENCY READING ROOM
MAY 1972
500 12th St., SW. Room 505
Washington, D. C. 20250

U.S. DEPARTMENT OF AGRICULTURE
Economic Research Service
Marketing Economics Division

Article Reprinted From
The Marketing and Transportation Situation
August 1963

MEATPACKERS' COSTS AND SPREADS FOR BEEF 1/

How much of the consumer price for Choice beef was paid for meatpackers' services? How were costs of these services allocated among labor, packaging materials, grading services, royalties, buying and selling, and operating overhead? And how stable was the packers' spread during the recent decline in prices for fat cattle?

A recent survey of meatpacker costs in commercial-scale fresh beef operations provides some information. Reporting packers were located in the eastern and western Cornbelt and in the Southwest and Southeast. Records used in the analysis were from packers slaughtering mostly steers and heifers. (Records from packers slaughtering high proportions of calves or cows and bulls for boning were excluded from the analysis).

Marketing-Service Costs to Packers

Costs to meatpackers for slaughter and shipping and delivery services comprised about 7 percent of the average retail price of fresh beef (85.1 cents per pound last fall and winter). Of this retail price, the farmer got an average of about 60 percent.

In this survey, packers' costs for buying cattle averaged 0.17 cent per retail pound and costs of selling meats to wholesale and retail customers averaged 0.35 cent (table 14). On the average, reporting packers incurred 3.7 cents per pound costs in dressing, grading, packaging, and loading fresh beef, and about 1.0 cent per pound for shipping fresh beef from packing plants to wholesale distribution centers. For local delivery directly to retailers, packers incurred an additional 0.5 cent per pound. These are costs meatpackers must cover before they make a nickel. Wholesalers handle an important fraction of the beef sold by packers. On this volume, wholesalers' costs of handling, selling, and delivery must be added.

Table 14.--Beef packers' costs per retail pound, by function, fall and winter, 1962-63

Function	Oct.-Dec. 1962	Jan.-Mar. 1963
	Cents	Cents
Buying cattle	0.17	0.17
Dressing, grading, packaging	3.72	3.67
Shipping dressed beef	.93	1.02
Selling	.35	.34
Total packing plant and shipping costs	5.17	5.20
Distribution to retailers	.47	.49
Packers' total cost	5.64	5.69

Meatpacker Costs by Function

How were packers' costs allocated among labor, grading and packaging, buying and selling, and operating overhead?

From October-December 1962 to January-March 1963, packers reported the following cost changes--labor, down from $1.56 to $1.50 per 100 pounds dressed weight; packaging supplies and grading and royalties, down from 20 to 19 cents; buying and selling, down from 39 to 38 cents; overhead cost up from 99 cents to $1.03; shipping and delivery cost, up from $1.05 to $1.11 (table 15). The somewhat lower operating costs and somewhat higher delivery costs were partly offsetting; between seasons individual firms showed remarkably stable total costs.

1/ Prepared by Donald B. Agnew, agricultural economist, Marketing Economics Division, Economic Research Service.

Table 15.--Costs of meatpackers' fresh beef operations, per 100 pounds of dressed beef, fall and winter 1962-63

Item	Oct.-Dec. 1962	Jan.-Mar. 1963
	Dollars	Dollars
Labor	1.56	1.50
Grading, royalties, and packaging 1/	.20	.19
Procurement and selling	.39	.38
Fixed plant and administrative	.99	1.03
Total operating costs	3.14	3.10
Transportation to distribution center	.70	.75
Local delivery	.35	.36
Total shipping and delivery	1.05	1.11
Packers' total costs	4.19	4.21

1/ Three-fourths of the packers reported costs for grading and royalties.

Table 16.--Labor costs of dressing fresh beef at reporting meatpackers' plants, per 100 pounds of dressed weight, by operation, fall and winter 1962-63

Operation	Oct.-Dec. 1962 1/	Jan.-Mar. 1963 2/
	Dollars	Dollars
Kill, offal, cooler	0.90	0.80
Shipping cooler	.34	.39
Hide cellar	.09	.08
Total	1.33	1.27

1/ 13 firms.
2/ 11 firms.

For firms reporting labor cost by task, 80 to 90 cents per 100 pounds dressed weight represented costs for slaughter, chill cooler, and support operations (working up heads and edible offal); 34 to 39 cents per 100 pounds represented costs for order assembly and other shipping cooler tasks, and 8 to 9 cents represented costs of labor in the hide cellar (table 16). Not all packers reported these detailed costs.

Costs were distributed among functions and operations in generally similar proportions in January-March 1963, October-December 1962 (tables 15 and 16), and as reported in an earlier survey for January-December 1961. 2/

Packers' operating costs approximated the spread between costs of live cattle and returns from beef carcasses and edible offal (table 17). Byproduct values, in former years generally close to operating costs, have trended downward in recent years, and, during this period, more closely approximated costs of shipping and delivery.

Table 17.--Selected costs and spreads per 100 pounds dressed beef, for reporting packers, fall and winter 1962-63

Item	Oct.-Dec. 1962	Jan.-Mar. 1963
	Dollars	Dollars
Spread on dressed beef (carcass and offal)	3.31	3.17
Operating cost	3.14	3.10
Byproduct value	1.96	1.81
Freight and delivery cost	1.05	1.11

2/ "Meatpacker Costs in Fresh Beef Operations--A Pilot Survey," an address by Donald B. Agnew, Meeting of Southwestern Division, National Independent Meat Packers Association, Dallas, Texas, March 8-9, 1963, released by ERS-USDA.

No consistent cost differences could be attributed to size or location of plant. But most cost elements varied among plants, and there generally was a wide range in cost among similar plants. (Comparisons were made for small groups of similar plants, rather than individual plants with highest and lowest costs, in order to protect identities of cooperating firms.)

Did Packers' Margins Widen When Cattle Prices Dropped?

As prices for fat cattle dropped last fall and winter, price spreads for reporting packers narrowed moderately (table 18). Historically, packer spreads have tended to widen when cattle prices decline. But packers reported falling wholesale prices for carcass beef, f.o.b. their loading docks, accompanying their lower prices paid for live cattle. The excessive supplies of slaughter stock caused prices of cattle to drop, and the accumulating inventories of carcass beef in packers' coolers caused beef prices, f.o.b. packing plant, to drop. The data indicated also that packers' costs (other than for cattle) remained about the same. The variability in operating costs among similar plants, however, emphasizes the importance of additional study to reduce marketing costs.

Table 18.--Packer costs and spreads per 100 pounds of dressed beef, fall and winter, 1962-63

Item	Oct.-Dec. 1962	Jan.-Mar. 1963
	Dollars	Dollars
Wholesale values of beef	40.85	39.40
Cost of cattle	35.58	34.42
Gross spread	5.27	4.98
Operating costs and delivery	4.19	4.21
Partial net margin 1/	1.08	.77

1/ Before payment of interest, taxes and returns to investment.

As cattle prices fell last winter, there was an approximate 2-month lag in adjustment of retail beef prices. 3/ This may have been caused in part by the nature of price discovery and the market's slowness in reflecting price changes between all market levels, and in part by differences in the bargaining power of retail chains compared with packers, and by retailers' pricing practices.

Packer Spread Compared with Packer Costs

Little is known about the mechanism of price adjustment, or the role of packer stocks of carcass beef in relation to price changes. Perhaps increased marketings of fat cattle last fall led to accumulation of carcass beef in packers' coolers in quantities exceeding market estimates of the market's requirements (ability to absorb) at current prices and contributed to lower prices for fresh beef. Packers accordingly reduced prices paid for live cattle; otherwise, dollar value of inventories would have increased excessively.

While reporting packers' operating costs decreased 4 cents per 100 pounds of wholesale beef, from October-December 1962 to January-March 1963, their freight and delivery costs increased 6 cents, mostly freight costs, indicating wider-range selling of the increased beef supply (table 15). Moreover, while their average cost for live cattle declined $1.16 per 100 pounds dressed weight, carcass value was down $1.30 per 100 pounds, and (because of declining byproduct prices) total realized income was $1.45 lower (tables 17 and 18). Thus, some packers may have reduced prices paid for cattle less than the full amount of decrease in prices of carcass beef and byproducts.

3/ "Adjustments in Retail Prices of Beef to Supply Changes," by William C. Motes, The Marketing and Transportation Situation, (MTS-149), May 1963, ERS-USDA, pp. 13-19.